

Issue Brief for Congress

Received through the CRS Web

Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests

Updated August 15, 2002

Jim Nichol
Foreign Affairs, Defense, and Trade Division

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 15 AUG 2002		2. REPORT TYPE		3. DATES COVERED 00-00-2002 to 00-00-2002	
4. TITLE AND SUBTITLE Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Congressional Research Service The Library of Congress,101 Independence Ave SE,Washington,DC,20540-7500				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 19	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

CONTENTS

SUMMARY

MOST RECENT DEVELOPMENTS

BACKGROUND AND ANALYSIS

Obstacles to Peace and Independence

- Political Situation

- Regional Tensions and Conflicts

 - Nagorno Karabakh Conflict

 - Civil and Ethnic Conflict in Georgia

- Economic Conditions, Blockades and Stoppages

Russian Involvement in the Region

- Military-Strategic Interests

 - Russia's Bases in Georgia

- Caspian Energy Resources

- The Protection of Ethnic Russians and "Citizens"

The Roles of Turkey, Iran, and Others

Overview of U.S. Policy Concerns

- Aid Overview

- U.S. Security Assistance

- Trade and Investment

Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests

SUMMARY

The United States recognized the independence of all the former Soviet republics by the end of 1991, including the South Caucasus states of Armenia, Azerbaijan, and Georgia. The United States has fostered these states' ties with the West, including membership in the Organization on Security and Cooperation in Europe (OSCE) and NATO's Partnership for Peace (PFP), in part to end the dependence of these states on Russia for trade, security, and other relations. The United States pursued close ties with Armenia to encourage its democratization and because of concerns by Armenian-Americans and others over its fate. Close ties with Georgia have evolved from U.S. contacts with former Soviet Foreign Minister Eduard Shevardnadze, Georgia's president for the last decade. Growing U.S. private investment in Azerbaijan's oil resources strengthened U.S. interests there. The United States has been active in diplomatic efforts to end conflicts in the region, many of which remain unresolved.

Faced with calls in Congress and elsewhere that the Administration develop policy for assisting the Eurasian states of the former Soviet Union, then-President Bush proposed the FREEDOM Support Act in early 1992. Signed into law in 1992, P.L. 102-511 authorized funds for the Eurasian states for humanitarian needs, democratization, creation of market economies, trade and investment, and other purposes. Sec. 907 of the Act prohibited most U.S. government-to-government aid to Azerbaijan until it ceases blockades and other offensive use of force against Armenia. This provision was partly altered over the years to permit humanitarian aid and democratization aid, border security and customs support to

promote non-proliferation, Trade and Development Agency aid, Overseas Private Investment Corporation insurance, Eximbank financing, and Foreign Commercial Service activities. The current Bush Administration appealed for a national security waiver of the prohibition on aid to Azerbaijan, in consideration of Azerbaijan's assistance to the international coalition to combat terrorism. In December 2001, Congress approved foreign appropriations for FY2002 (P.L. 107-115) that authorizes the President to waive Sec. 907 under certain conditions through December 2002. President Bush exercised his waiver authority on Jan. 25, 2002. In the South Caucasus, U.S. policy goals have been to buttress the stability and independence of the states through multilateral and bilateral conflict resolution efforts and to provide humanitarian relief. U.S. aid has also supported democratization, free market reforms, and U.S. trade. The Bush Administration supports U.S. private investment in Azerbaijan's energy sector as a means of increasing the diversity of world energy suppliers, and encourages building multiple energy pipeline routes to world markets. In the aftermath of the September 11, 2001 terrorist attacks in the United States, the three South Caucasus countries expressed support for U.S.-led operations in Afghanistan against Al-Qaeda and other terrorist groups. U.S. Defense Secretary Rumsfeld visited all three countries in mid-December 2001. As part of the U.S. global anti-terrorism campaign, the U.S. military in April-May 2002 began providing security equipment and training to help Georgia combat terrorist groups in the Pankisi Gorge area and elsewhere in the country.

MOST RECENT DEVELOPMENTS

Russian airstrikes into Georgia's Pankisi Gorge area bordering Russia's Chechnya region were reported on July 29 and 30, and August 4, 7, 8, and 14, with some damage verified by observers from the Organization for Security and Cooperation in Europe. On August 15, the Russian Foreign Ministry demanded that Georgia close down a Chechnya representative office and explain whether it actively colludes with Chechen terrorists who use the Pankisi Gorge as a base for raids into Chechnya. Russian Defense Minister Sergey Ivanov on August 13 ordered stepped-up force deployments along the border, but the Defense Ministry denied that Russia was planning any "unilateral" moves in the gorge. Georgia announced on August 15 that its U.S.-trained troops will begin military exercises in the gorge to demonstrate its resolve to control the area (see below, Security).

About 10,000 Russian military, border, and security troops and dozens of ships and aircraft conducted a military exercise in the northern Caspian Sea in August 2002, demonstrating Russia's armed predominance and underscoring its proposals for dividing Caspian Sea resources among the five littoral states.

BACKGROUND AND ANALYSIS

Armenia, Azerbaijan, and Georgia are located in the South Caucasus region of the former Soviet Union. This region borders Turkey, Iran, the Black and Caspian Seas, and Russia's northern slopes of the Caucasus Mountains (termed the North Caucasus). Historically, the South Caucasus states served as a north-south and east-west trade and transport "land bridge" linking Europe to the Middle East and Asia, over which the Russian Empire and others at various times endeavored to gain control. In ancient as well as more recent times, oil and natural gas resources in Azerbaijan attracted outside interest. While Armenia and Georgia can point to past periods of autonomy or self-government, Azerbaijan was not independent before the 20th century. After the Russian Empire collapsed in 1917, all three states declared independence, but by early 1921 all had been re-conquered by Russia's Red (Communist) Army. They regained independence when the Soviet Union collapsed in late 1991. (For background, see CRS Report RS20812, *Armenia Update*; CRS Report 97-522, *Azerbaijan*; and CRS Report 97-727, *Georgia*.)

The Caucasus States: Basic Facts

Area: The region is slightly larger than Syria: Armenia is 11,620 sq. mi.; Azerbaijan is 33,774 sq. mi.; Georgia is 26,872 sq. mi.

Population: 17.4 million, similar to Australia; Armenia: 3.8 m.; Azerbaijan: 8.1 m.; Georgia: 5.5 m. (World Bank estimates for 2001)

GDP: \$10.2 billion; Armenia: \$1.9 b.; Azerbaijan: \$5.3 b.; Georgia: \$3.0 b. (World Bank estimates for 2000)

Obstacles to Peace and Independence

In the ten years since achieving independence, the South Caucasus states have had difficult experiences in developing fully sovereign and independent states and robust democratic and free market systems. Persistent regional conflicts undermine these efforts.

Political Situation

Armenia. Armenia appeared somewhat stable until 1998. Then-President Levon Ter-Petrosyan had been effective in orchestrating a major victory for his ruling and other pro-government parties in 1995 legislative races, in obtaining approval for a new constitution granting him enhanced powers, and in orchestrating his reelection in 1996. Nonetheless, he was forced to resign in 1998, reporting that his endorsement of OSCE peace proposals had not been supported by others in his government. Former Prime Minister Robert Kocharyan won 1998 presidential elections. Armenia's last parliamentary elections were held in May 1999, and produced a plurality for the ruling Unity bloc coalition. Illustrating the ongoing challenges to stability faced by Armenia, in October 1999, gunmen entered the legislature and opened fire on deputies and officials, killing Prime Minister Vazgen Sarkisyan and Speaker Karen Demirchyan, and six others. The killings may have been the product of personal and clan grievances. Abiding by the constitution, the legislature met and appointed Armen Khachatryan as speaker (a member of the ruling Unity bloc), and Kocharyan named Sarkisyan's brother the new prime minister. Political infighting intensified until May 2000, when Kocharyan appointed former Soviet dissident Andranik Margaryan the new prime minister. Kocharyan has co-opted several opposition party officials into his government in order to increase political stability. He has announced that he will run again in the 2003 presidential election, which will take place alongside the next parliamentary elections. (See also CRS Report RS20812, *Armenia Update*.)

Azerbaijan. Azerbaijan has had three presidents and other acting heads of state since independence, and has suffered several coups or attempted coups. A constitutional referendum in 1995 granted Azerbaijani President Heydar Aliyev sweeping powers. He has concentrated power in his office, arrested many of his opponents, and taken other measures to keep the opposition weak. Aliyev's health problems and age have raised the question of political succession. Observers believe he is grooming his son Ilkham to be his successor; in November 2001, the ruling New Azerbaijan Party elected Ilkham to be deputy party chairman. However, President Aliyev maintains that he will stand for re-election in 2003. The 1995 legislative and 1998 presidential elections were marred by irregularities, according to international observers. In late June 2000, the Parliamentary Assembly of the Council of Europe (PACE) approved Azerbaijan's membership, conditioned on its compliance with commitments, including holding a free and fair legislative election. OSCE and PACE observers to the November 5, 2000, legislative election judged it "seriously flawed," though they said it showed some progress compared to previous elections. U.S. Helsinki Commission observers saw virtually no progress. Although international observers also judged January 2001 legislative run-off elections as seriously flawed, PACE admitted both Azerbaijan and Armenia as members later in the month. In January 2002, PACE adopted a resolution that criticized Azerbaijan's human rights record and called on Azerbaijan to release political prisoners. U.S. State Department Spokesman Richard Boucher on July 18 urged Azerbaijan to postpone a constitutional referendum scheduled for August 24, so that its citizens could amply debate the planned changes to the constitution and so that electoral procedures could be improved in line with OSCE recommendations.

Georgia. Georgia experienced political instability during the early 1990s, and a fragile stability in the second half of the decade. President Eduard Shevardnadze has survived several coup attempts and has prevailed over political rivals both within and outside of his Citizens' Union Party (CUG). According to some critics, U.S. policy has relied too heavily

on personal ties with Shevardnadze (and with Aliyev in Azerbaijan), and his replacement could bring instability and setbacks to U.S. interests. The OSCE reported that legislative races in October-November 1999 in Georgia appeared mostly fair, but a lack of transparency in the electoral law and irregularities in voting marred full compliance with OSCE standards. In the April 2000 presidential elections, Shevardnadze received 80% of 1.87 million votes cast. The OSCE reported that the election did not meet democratic standards. Shevardnadze refused to relinquish his control over mayoral appointments, though he permitted local city council elections in mid-2002. Political instability has increased in 2001-2002. Reformist Justice Minister Mikheil Saakashvili and Tax Minister Mikheil Machavariani resigned in August 2001, citing the lack of progress on economic and anti-corruption reforms. Shevardnadze fired his entire cabinet in November 2001 after mass protests against a police raid on a private television station. Former supporter Zurab Zhvania also resigned as legislative speaker, condemning Shevardnadze's civil rights record. Shevardnadze's stated intention not to seek another term in 2005 has fueled speculation about possible successors. His naming of State Secretary Avtandil Dzhorbenadze at the end of June 2002 to head the CUG was viewed by many Georgians as an attempt to designate an heir.

Regional Tensions and Conflicts

U.S. and international efforts to foster peace and the continued independence of the South Caucasus states face daunting challenges. The region has been the most unstable in the former Soviet Union in terms of the numbers, intensity, and length of its ethnic and civil conflicts. The ruling nationalities in the three states are culturally rather insular and harbor various grievances against each other. This is particularly the case between Armenia and Azerbaijan, where discord has led to the virtually complete displacement of ethnic Armenians from Azerbaijan and vice versa. The main languages in the three states are mutually unintelligible (also, those who generally consider themselves Georgians — Kartvelians, Mingrelians, and Svans — speak mutually unintelligible languages). Few of the region's borders coincide with ethnic populations. Attempts by territorially-based ethnic minorities to secede are primary security concerns in Georgia and Azerbaijan. Armenia and Azerbaijan view NK's status as a major security concern. The three major secessionist areas — NK, Abkhazia, and South Ossetia — have failed to gain international recognition, and receive major economic sustenance from, respectively, Armenia, Russia, and Russia's North Ossetia region. Also, Georgia's Ajaria region receives backing from Russia for its autarchic stance toward the Shevardnadze government.

The South Caucasus states, because of ethnic conflicts, have not yet been able to fully partake in peace, stability, and economic development over a decade since the Soviet collapse, some observers lament. Countries are faced with on-going budgetary burdens of arms races and caring for refugees and displaced persons. Other costs of ethnic conflict include threats to bordering states of widening conflict and the limited ability of the region or outside states to fully exploit energy resources or trade/transport networks.

Nagorno Karabakh Conflict. Since 1988, the separatist conflict in Nagorno Karabakh (NK) has resulted in 15,000 deaths, about 1 million Azerbaijani refugees and displaced persons, and about 300,000 Armenian refugees. About 20% of Azerbaijan, including NK, is controlled by NK Armenian forces. Various mediators have included Russia, Kazakhstan, Iran, the United Nations, and the OSCE. The OSCE began the "Minsk Group" talks in 1992. A U.S. presidential envoy was appointed to these talks. A

Russian-mediated cease-fire was agreed to in May 1994 and was formalized by an armistice signed by the ministers of defense of Armenia and Azerbaijan and the commander of the NK army on July 27, 1994 (and reaffirmed a month later). Moscow talks were held by the sides, with token OSCE representation, along with Minsk Group talks. The OSCE at its December 1994 Budapest meeting agreed to send OSCE peacekeepers to the region under U.N. aegis if a political settlement could be reached. Russia and the OSCE merged their mediation efforts. The United States, France, and Russia co-chair meetings of the Minsk Group.

A new round of peace talks opened in Moscow in 1997. The presidents of Azerbaijan and Armenia recognized a step-by-step peace proposal as a basis for further discussion, leading to protests in both countries and to Ter-Petrosyan's forced resignation. Armenian Foreign Minister Varden Oskanyan instead called for the withdrawal of NK forces from areas of Azerbaijan as part of a simultaneous and comprehensive settlement of NK's status that excluded it as part of Azerbaijan. Azerbaijan rejected a new Minsk Group proposal in late 1998 embracing elements of a comprehensive settlement, citing vagueness on the question of NK's proposed "common state" status. At U.S. urging, Kocharyan and Aliyev met in April 1999 and agreed to stepped-up presidential talks. The assassinations of Armenian political leaders in late 1999 set back the peace process.

In 2001, the two presidents met in Paris in January and March and in Key West, Florida, in April. In Key West, no documents were signed and the two presidents talked mainly through intermediaries. By some accounts, the sides discussed elements of a peace plan first broached in 1999 that included territorial concessions and the establishment of land corridors. Indicating the Administration's high-level interest, the two Presidents flew to Washington D.C. after the talks and each met with President Bush. Talks planned for June 2001 in Geneva were postponed, however. In the aftermath of the September 11, 2001 terrorist attacks, U.S. Special Negotiator for NK and Eurasian Conflicts, Rudolf Perina, has stressed that the new international environment resulting from the anti-terrorism campaign has increased the importance of resolving regional conflicts and restoring stability. In March 2002, the presidents of Armenia and Azerbaijan appointed new personal emissaries – Araz Azimov from Azerbaijan and Tatul Markaryan from Armenia – who met in mid-May 2002 and at the end of July 2002 with no breakthroughs. In June 2002, Aliyev alleged that Armenia had back-tracked at the Key West talks from the idea of territorial concessions, but Armenia's Foreign Ministry rebutted that Armenia had never agreed to swap land for peace (See also CRS Issue Brief IB92109, *Armenia-Azerbaijan Conflict*.)

Civil and Ethnic Conflict in Georgia. Several of Georgia's ethnic minorities stepped up their dissident actions, including separatism, in the late 1980s and early 1990s. South Ossetians in 1989 called for joining their territory with North Ossetia in Russia or for independence. Repressive efforts by former Georgian President Gamsakhurdia triggered conflict in 1990, reportedly leading to about 1,500 deaths and 50,000 displaced persons, mostly ethnic Georgians. In June 1992, former Russian President Yeltsin brokered a cease-fire, and a predominantly Russian military "peacekeeping" force has been stationed in South Ossetia (currently numbering about 530). A coordinating commission composed of OSCE, Russian, Georgian, and North and South Ossetian emissaries was formed to promote a settlement of the Georgian-Ossetian conflict. Rapprochement remains elusive.

Abkhazia. In late 2001, the Abkhaz conflict heated up after remaining dormant for several years. Abkhazia's Supreme Soviet declared its effective independence from Georgia

in July 1992. This prompted Georgian national guardsmen to attack Abkhazia. In October 1992, the U.N. Security Council (UNSC) approved the first U.N. observer mission to a Eurasian state, termed UNOMIG, to help reach a settlement. UNOMIG's mandate has been continuously extended and currently runs through July 2002. In September 1993, Russian and North Caucasian "volunteer" troops that reportedly made up the bulk of Abkhaz separatist forces broke a cease-fire and quickly routed Georgian forces. The U.N. sponsored Abkhaz-Georgian talks, with the participation of Russia and the OSCE, that led to a cease-fire. In April 1994, the two sides signed framework accords on a political settlement and on the return of refugees. A Quadripartite Commission was set up to discuss repatriation, composed of Abkhaz and Georgian representatives and emissaries from Russia and UNHCR. In May 1994, an accord provided for Russian troops (acting as CIS "peacekeepers") to be deployed in a security zone along the Inguri River that divides Abkhazia from the rest of Georgia. *The Military Balance* estimates that about 1,700 Russian "peacekeepers" are deployed. The conflict resulted in about 10,000 deaths and over 200,000 refugees and displaced persons, mostly ethnic Georgians.

U.S. Special Negotiator Perina works with the U.N. Secretary General, his Special Representative (currently Dieter Boden), and other Friends of Georgia (France, Germany, Russia, the United Kingdom, and Ukraine) to facilitate a peace settlement. There are 108 UNOMIG military observers as of July 2002, including two U.S. personnel. The UNSC agreed that cooperation with the Russian forces was a reflection of trust placed in Russia. Under various agreements, the Russian "peacekeepers" are to respond to UNOMIG reports of ceasefire violations, carry out demining, and provide protection for UNOMIG's unarmed observers. In late 1997, the sides agreed to set up a Coordinating Council to discuss ceasefire maintenance and refugee, economic, and humanitarian issues. Coordinating Council talks and those of the Quadripartite Commission have been supplemented by direct discussions between Abkhaz and Georgian representatives. Sticking points between the two sides have included Georgia's demand that displaced persons be allowed to return to Abkhazia, after which an agreement on broad autonomy for Abkhazia may be negotiated. The Abkhazians have insisted upon recognition of their effective independence as a precondition to large-scale repatriation. A draft negotiating document prepared by the U.N. and the Friends of Georgia was released in January 2002 that calls for Abkhazia to be recognized as "a sovereign entity...within the state of Georgia," but the UNSC in July 2002 criticized Abkhaz authorities for refusing to consider the draft.

Economic Conditions, Blockades and Stoppages

The economies of all three South Caucasus states greatly declined in the early 1990s, affected by the dislocations caused by the breakup of the Soviet Union, conflicts, trade disruptions, and the lingering effects of the 1988 earthquake in Armenia. Although gross domestic product (GDP) began to rebound in the states in the mid-1990s, the economies remained fragile. Investment in oil and gas resources and delivery systems has fueled economic growth in Azerbaijan in recent years. Armenia's GDP in 2000 was about \$550 per capita, Azerbaijan's was about \$700, and Georgia's was about \$1,000 (*Economist Intelligence Unit*, 2001 estimates, current dollars). Widespread poverty and regional conflict have contributed to high emigration from all three states.

Transport and communications obstructions and stoppages have severely affected economic development in the South Caucasus and stymied the region's emergence as an

East-West and North-South corridor. Since 1989, Azerbaijan has obstructed railways and pipelines traversing its territory to Armenia, and for a time successfully blockaded NK. These obstructions have had a negative impact on the Armenian economy, since it is heavily dependent on energy and raw materials imports. Turkey has barred U.S. shipments of aid through its territory to Armenia since March 1993. P.L. 104-107 and P.L. 104-208 mandated a U.S. aid cutoff (with a presidential waiver) to any country which restricts the transport or delivery of U.S. humanitarian aid to a third country, aimed at convincing Turkey to allow the transit to U.S. aid to Armenia. According to the U.S. Embassy in Baku, Azerbaijan's poverty-stricken Nakhichevan exclave "is blockaded by neighboring Armenia," severing its "rail, road, or energy links to the rest of Azerbaijan." Iran has at times obstructed bypass routes to Nakhichevan. Georgia has cut off natural gas supplies to South Ossetia. Russia at times has closed its borders with Azerbaijan and Georgia because of conflict in its breakaway Chechnya region. In 1996, the CIS supported Georgia in imposing an economic embargo on Abkhazia, but Russia announced in 1999 that it was lifting most trade restrictions, and a railway was reopened in mid-2000.

Russian Involvement in the Region

Russia has appeared to place a greater strategic importance on maintaining influence in the South Caucasus region than in Central Asia (except Kazakhstan). Russia has exercised most of its influence in the military-strategic sphere, less in the economic sphere, and a minimum in the domestic political sphere, except for obtaining assurances on the treatment of ethnic Russians. Russia has viewed Islamic fundamentalism as a potential threat to the region, but has cooperated with Iran on some issues to counter Turkish and U.S. influence. Russia has tried to stop ethnic "undesirables," drugs, weapons, and other contraband from entering its borders, and to contain the contagion effects of separatist ideologies in the North and South Caucasus. These concerns, Russia avers, has led it to establish military bases in Armenia and Georgia. The states have variously responded to Russian overtures. Armenia has close security and economic ties with Russia, given its unresolved NK conflict and grievances against Turkey. Georgia has objected to Russia's actions related to the conflict in Chechnya, its military bases in Georgia, and its support to Abkhaz separatists. Azerbaijan has been concerned about Russia's ties with Armenia.

Military-Strategic Interests

Russia's armed presence in the South Caucasus is multi-faceted, including military base personnel, "peacekeepers," and border troops. The first step by Russia in maintaining a military presence in the region was the signing of the Commonwealth of Independent States (CIS) Collective Security Treaty (CST) by Armenia, Russia, and others in 1992, which calls for mutual defense consultations. Russia prevailed on Georgia and Azerbaijan to join the CIS and sign the CST in 1993, but they withdrew from the CST in 1999. Russia also secured permission for two military bases in Armenia and four in Georgia. Russian forces help guard the Armenian-Turkish border. The total number of Russian troops has been estimated at about 2,900 in Armenia and 6,200 in Georgia. Another 77,400 Russian troops are stationed nearby in the North Caucasus (*The Military Balance 2001-2002*). In 1993, Azerbaijan was the first Eurasian state to get Russian troops to withdraw, except at the Gabala radar site in northern Azerbaijan. (Giving up on closing the site, in January 2002, Azerbaijan signed a

10-year lease agreement with Russia to permit up to 1,500 personnel to man the site.) In January 1999, Georgia assumed full control over guarding its sea borders, and in October 1999, most of the Russian border troops left, except for some liaison officers. Armenia has argued that its Russian bases provide for regional stability by protecting it from attack. Russia has said that it has supplied weapons to Armenia, including S-300 missiles and Mig-29 fighters for air defense, to enhance Armenia's and NK's security. Azerbaijan and Georgia have raised concerns about the spillover effects of Russia's military operations in Chechnya. In December 1999, the OSCE agreed to Georgia's request that it send observers (currently 40-50) to monitor Georgia's border with Chechnya.

Since the September 11, 2001 terrorist attacks in the United States, Russia has stepped up its claims that Georgia harbors Chechen terrorists with links to bin Laden, who use Georgia as a staging ground for attacks into Chechnya. Georgia long denied these claims. Georgia, which borders Chechnya, has accepted thousands of Chechen refugees, mainly because many Chechens, termed Kists, live in Georgia's Pankisi Gorge area. Some Russian officials initially condemned U.S. plans, announced in early 2002, to provide military advisory assistance to Georgia. However, in June 2002, Russian President Vladimir Putin backed "temporary" U.S. aid in fighting terrorists in the Pankisi Gorge, but stated that such aid would be ineffective unless Russian troops took part (see below, *Security Assistance*).

The late summer of 2002 witnessed escalating Georgian-Russian tensions, with Putin on July 31, 2002, accusing Georgia of permitting about 60 Chechen guerrillas to infiltrate into Chechnya, where they attacked Russia troops. Shevardnadze denied that the guerrillas had been harbored in Georgia, and denounced alleged Russian airstrikes on Georgian territory. Russia's Foreign Minister Igor Ivanov termed the alleged incursion "aggression" from Georgia in a conversation with U.S. Secretary of State Colin Powell on July 31. Ivanov called on the international community for joint attacks on the bases in Georgia. Powell reportedly told Ivanov that the United States was working with Georgia to ameliorate lawlessness in the Pankisi Gorge area.

Russia's Bases in Georgia. In 1999 Russia agreed to provisions of the adapted Conventional Armed Forces in Europe (CFE) Treaty calling for it to reduce weaponry at its bases in Georgia, to close its bases at Gudauta and Vaziani by July 2001, and to discuss closing Russian military bases at Batumi and Akhalkalaki. The Treaty remains unratified by NATO signatories until Russia satisfies these and other conditions. Russia moved some weaponry from the bases in Georgia to bases in Armenia, raising objections from Azerbaijan. On July 1, 2001, Georgia reported that the Vaziani base and airfield had been turned over by Russia to Georgia. The Russian government reported that it was unable to turn over the Gudauta base (located in Abkhazia) by the deadline, ostensibly because it had not had enough time to build replacement facilities in Russia, and because fearful Abkhazians had hampered the withdrawal. It reported in June 2002 that it had closed its Gudauta base, but announced that 320 troops would remain to guard facilities and support "peacekeepers" who would relax at the base. In August 2002, Russia stated that it needed \$300 million and eleven years to close the other two bases.

Caspian Energy Resources

Russia has tried to play a significant role in future oil production, processing, and transportation in the Caspian Sea region. Russia's oil firm LUKoil has investment stakes in

the Azerbaijan International Oil Consortium (AIOC) and other consortiums, and Transneft in an oil pipeline to Russia's Novorossiisk Black Sea port. In an effort to increase influence over energy development, Russia's policymakers during much of the 1990s insisted that the legal status of the Caspian Sea be determined before resources could be exploited. Iran and Turkmenistan initially endorsed Russia's view of a "closed sea" or "lake," where resources are commonly exploited. Russia changed its stance somewhat by agreeing on seabed delineation with Kazakhstan in 1998 and with Azerbaijan in January 2001, prompting objections from Iran. In January 2002, Russian and Azerbaijani leaders agreed to cooperate on drawing a median line in the Caspian Sea between the two countries, but a meeting between the two presidents in June 2002 did not result in the expected accord.

Russian President Putin has criticized Western private investment in energy development in the Caspian region, and appointed a special energy emissary to the region to lobby the states to increase their energy ties with Russia. As part of this assertiveness, Russian energy firms have stepped-up their efforts to gain major influence over Caspian energy resources and routes. Since September 11, 2001, Putin has appeared to ease criticism of a growing U.S. presence in the region. At the May 2002 U.S.-Russia summit, the two presidents issued a joint statement endorsing multiple pipeline routes to transport Caspian region energy, implying Russia's non-opposition to plans to build the Baku-Ceyhan oil and gas pipelines. Also, in May 2002, Russia's Rosneftegazstroi pipeline firm signed an agreement with Georgia on building an oil pipeline from Novorossiisk to Georgia's port of Supsa, perhaps to link up with the prospective Baku-Ceyhan oil pipeline. Such a pipeline would permit Russian and Kazakh oil to enter the Baku-Ceyhan route. However, while Russian energy firms have expressed interest in investing in construction of the Baku-Ceyhan pipeline projects, the Russian government remains of two minds over whether to pursue partial influence via these investments or to continue to oppose the Baku-Ceyhan route. Some observers view Russia's stepped-up pressure on Georgia during 2002 as calculated to increase its influence, including over pipelines.

The Protection of Ethnic Russians and "Citizens"

As a percentage of the population, there are fewer ethnic Russians in the South Caucasus states than in most other Eurasian states. According to the 1989 Soviet census, there were 52,000 ethnic Russians in Armenia (1.6% of the population), 392,000 in Azerbaijan (5.6%), and 341,000 in Georgia (6.3%). These numbers have declined since then. Russia has voiced concerns about the safety of ethnic Russians in Azerbaijan and Georgia. A related Russian concern has involved former Soviet citizens who want to claim Russian citizenship or protection. In June 2002, a new Russian citizenship law permitted granting citizenship and passports to most Abkhazians and South Ossetians (already, they are able to enter Russia without visas, while Georgians are not), heightening Georgian fears that Russia seeks *de facto* annexations. Many observers argue that the issue of protecting the human rights of ethnic Russians and pro-Russian groups is a stalking horse for Russia's military-strategic and economic interests. There are indications that Russia is taking advantage of fellow-travelers and agents in place in the South Caucasus states to oppose U.S. and coalition activities. In Georgia, these hardliners have tried to thwart implementation of the U.S. train and equip program (see below, *Security*).

The Roles of Turkey, Iran, and Others

The United States has generally viewed Turkey as able to foster pro-Western policies and discourage Iranian interference in the South Caucasus states, though favoring Azerbaijan in the NK conflict. Critics of Turkey's larger role in the region caution that the United States and NATO are liable to be drawn by their ties with Turkey into regional imbroglios. Turkey seeks good relations with Azerbaijan and Georgia and some contacts with Armenia, while trying to limit Russian and Iranian influence. Azerbaijan likewise views Turkey as a major ally against such influence, and as a balance to Armenia's ties with Russia. Armenia is a member of the Black Sea Economic Cooperation zone, initiated by Turkey, and the two states have established consular relations. Obstacles to better Armenian-Turkish relations include Turkey's rejection of Armenians' claims of genocide in 1915-1923 and its support for Azerbaijan in the NK conflict, including the border closing. Georgia has an abiding interest in ties with the approximately one million Georgians residing in Turkey and the approximately 50,000 residing in Iran, and has signed friendship treaties with both states. Turkey and Russia are Georgia's primary trade partners. Consistent with the U.S. focus on the global anti-terror campaign, Turkey, Azerbaijan, and Georgia reached a tripartite security cooperation accord in January 2002 on combating terrorism and international crime and protecting pipelines. Turkey has hoped to benefit from the construction of new pipelines delivering oil and gas from the Caspian Sea, though a Turkish economic downturn has resulted in an oversupply problem for the time being.

Iran's interests in the South Caucasus include discouraging Western powers such as Turkey and the United States from gaining influence (Iran's goal of containing Russia conflicts with its cooperation with Russia on these interests), ending regional instability that might threaten its own territorial integrity, and building economic links. A major share of the world's Azerbaijanis reside in Iran (estimates range from 6-12 million), which also hosts about 200,000 Armenians. Ethnic consciousness among some "Southern Azerbaijanis" in Iran has grown, which Iran has countered by limiting trans-Azerbaijani contacts, raising objections among many in Azerbaijan. Azerbaijani elites fear Iranian-supported Islamic extremism and object to Iranian support to Armenia. Iran has growing trade ties with Armenia and Georgia, but its trade with Azerbaijan has declined. To block the West and Azerbaijan from developing Caspian Sea energy resources, Iran has insisted on either common control by the littoral states or the division of the seabed into five equal sectors. Iranian warships have challenged Azerbaijani oil exploration vessels in the Caspian Sea. U.S. policy aims at containing Iran's threats to U.S. interests (See CRS Issue Brief IB93033, *Iran*). Some critics argue that if the South Caucasus states are discouraged from dealing with Iran, particularly in building pipelines through Iran, they face greater pressure to accommodate Russian interests. (See also below, *Energy*.)

Among non-bordering states, the United States and European states are the most influential in the South Caucasus in terms of aid, trade, exchanges, and other ties. U.S. and European goals in the region are broadly compatible, involving integrating it into the West and preventing an anti-Western orientation, opening it to trade and transport, obtaining energy resources, and helping it become peaceful, stable, and democratic. The South Caucasus region has developed some economic and political ties with other Black Sea and Caspian Sea littoral states, besides those discussed above, particularly with Ukraine, Romania, Kazakhstan, and Turkmenistan. Azerbaijan shares with Central Asian states common linguistic and religious ties and concerns about some common bordering powers

(Iran and Russia). The South Caucasian and Central Asian states have common concerns about terrorist threats and drug trafficking from Afghanistan. Energy producers Kazakhstan, Turkmenistan, and Uzbekistan have considered trans-Caspian transport as a means to get their oil and gas to Western markets. As Central Asia's trade links to the South Caucasus become more significant, it will become more dependent on stability in the region.

Overview of U.S. Policy Concerns

By the end of 1991, the United States had recognized the independence of all the former Soviet republics. The United States pursued close ties with Armenia, because of its profession of democratic principles, and concerns by Armenian-Americans and others over its fate. The United States pursued close ties with Georgia after Shevardnadze, formerly a pro-Western Soviet foreign minister, assumed power there in early 1992. Faced with calls in Congress and elsewhere for a U.S. aid policy for the Eurasian states, then-President Bush sent the FREEDOM Support Act to Congress, which was signed with amendments into law in October 1992 (P.L. 102-511).

Focusing on the Armenia-Azerbaijan conflict over the breakaway Nagorno Karabakh (NK) region, the FREEDOM Support Act's Sec. 907 prohibits U.S. government-to-government assistance to Azerbaijan, except for nonproliferation and disarmament activities, until the President determines that Azerbaijan has taken "demonstrable steps to cease all blockades and other offensive uses of force against Armenia and NK." U.S. aid was at first limited to that supplied through international agencies and private voluntary and nongovernmental organizations (NGOs). A provision in P.L. 104-107 eased the prohibition for FY1996, by stating that "assistance may be provided for the Government of Azerbaijan for humanitarian purposes, if the President determines that humanitarian assistance provided in Azerbaijan through NGOs is not adequately addressing the suffering of refugees and internally displaced persons." Further easing was provided for FY1998 by P.L. 105-118, which permitted humanitarian aid, support for democratization, Trade and Development Agency (TDA) guarantees and insurance for U.S. firms, Foreign Commercial Service (FCS) operations, and aid to prevent the spread of weapons of mass destruction. In FY1999 (P.L. 105-277) and thereafter, changes included approval for Overseas Private Investment Corporation (OPIC) activities and Export-Import Bank financing. Notwithstanding the exceptions, the State Department argued that Sec.907 still restricted aid for anti-corruption and counter-narcotics programs, regional environmental programs, and programs such as good business practices, tax and investment law, and budgeting. The Defense Department argued that Sec. 907 restricted military assistance to Azerbaijan, including for anti-terrorism measures and energy pipeline security.

The events of 9/11 at least temporarily altered congressional attitudes toward Sec.907. In a letter to the Senate Foreign Relations Committee in October 2001, Secretary of State Powell requested a national security waiver for Sec. 907, arguing that it severely constrained the U.S. ability to provide support to Azerbaijan in the war against terrorism. A waiver to Sec.907 was added to the Senate version of Foreign Operations Appropriations for FY2002 (H.R. 2506) and retained by the conferees. Days after H.R. 2506 was signed into law (P.L.107-115), President Bush on January 25, 2002 issued Presidential Determination 2002-06, exercising the waiver. The White House stated that the waiver serves to "deepen [U.S.] cooperation with Azerbaijan in fighting terrorism and in impeding the movement of terrorists

into the South Caucasus,” and to deepen security cooperation with Armenia. The waiver also helps advance “a new web of U.S. security relationships with both Armenia and Azerbaijan” to deter them from renewing hostilities and to facilitate a peaceful settlement of the NK conflict, according to the White House. Foreign Operations Appropriations for FY2003, S. 2779, reported by Senate Appropriations Committee July 24 (S.Rept. 107-219), contains the usual exclusions, with no mention of a waiver (see also below, *Aid and Security*).

U.S. policy toward the South Caucasus states includes promoting the resolution of NK, Abkhaz, and other regional conflicts. Successive U.S. Special Negotiators have served as co-chair of the Minsk Group of states mediating the NK conflict and taken part in the Friends of the U.N. Secretary General consultations and efforts of the Secretary General’s special representative to settle the Abkhaz conflict. Shevardnadze received assurances during his October 2001 U.S. visit of continued U.S. support for resolution of the Abkhaz conflict and for Georgia’s territorial integrity. At the US-Russia Summit in May 2002, the two sides pledged to cooperate on conflict resolution in the South Caucasus, including in Abkhazia, and reaffirmed their commitment to Georgia’s territorial integrity.

In the wake of 9/11, U.S. policy priorities have shifted toward global anti-terrorist efforts. In the South Caucasus, the United States obtained quick pledges from the three states to support U.S. and coalition efforts in Afghanistan, including overflight rights and Azerbaijan’s and Georgia’s offers of airbase support and “whatever [else is] necessary.” The State Department’s *Patterns of Global Terrorism 2001* highlighted U.S. support for Azerbaijan’s and Georgia’s efforts to halt the use of their territories as conduits by international mujahidin and Chechen guerrillas for financial and logistic support for Chechen and other Caucasian terrorists.

Some observers argue that developments in the South Caucasus region are largely marginal to global anti-terrorism and to U.S. interests in general. They urge great caution in adopting policies that will heavily involve the United States in a region beset by ethnic and civil conflicts. Earlier arguments against significant U.S. involvement – that the oil and other natural resources in the region are not commercially viable because of development and export costs and inadequate amounts, or will not be available to Western markets for many years – appear to be losing credibility (see below, *Energy Resources*).

Other observers believe that U.S. policy now requires more active engagement in the South Caucasus. They point to weakness and instability in these states caused by warfare, crime, smuggling, terrorism, and Islamic extremism, and urge greater U.S. aid and conflict resolution efforts to contain extremism and bolster independence. Some argue that improved U.S. relations with these Eurasian states also would serve to “contain” Russian and Iranian influence, and that improved U.S. ties with Azerbaijan would benefit U.S. relations with other Islamic countries, particularly Turkey and the Central Asian states. Many add that the energy and resource-rich Caspian region is a central U.S. strategic interest, including because Azerbaijani and Central Asian oil and natural gas deliveries would lessen Western energy dependency on the Middle East. They also point to the prompt cooperation offered by Azerbaijan, Armenia, and Georgia in the aftermath of September 11, 2001 events.

Aid Overview

The United States is the largest bilateral aid donor by far to Armenia and Georgia, and the two states are among the four Eurasian states that have received more than \$1 billion in U.S. aid FY1992-FY2002 (the others are Russia and Ukraine). See Tables 1 and 2. U.S. assistance has included FREEDOM Support Act programs, food aid (U.S. Department of Agriculture), Peace Corps, and security assistance. Armenia and Georgia have regularly ranked among the top world states in terms of per capita U.S. aid, indicating the high level of concern within the Administration and Congress. Foreign Operations Appropriations for FY1998 (P.L. 105-118) created a new South Caucasian funding category and earmarked \$250 million of \$770 million in aid to this category. FY1999 appropriations (P.L. 105-277) sustained this category, with Congress earmarking \$228 million of \$847 million in FREEDOM Support Act aid, and in FY2000-FY2002 (though without an earmark). Besides bilateral aid, the United States contributes to multilateral organizations such as the International Monetary Fund and the World Bank that aid the region. (See also CRS Issue Brief IB95077, *The Former Soviet Union and U.S. Foreign Assistance*.)

Foreign Operations Appropriations for FY2002 (P.L.107-115) earmarked \$90 million in FREEDOM Support Act aid for Armenia and recommended the same for Georgia. It sustained the South Caucasus funding category, calling for funds (unspecified) to be used for confidence-building measures in support of the resolution of regional conflicts, especially in Abkhazia and NK. It permitted the President to waive Sec. 907 if he determines that aid to Azerbaijan is necessary to support U.S. efforts to counter terrorism and support U.S. and allied forces, will enhance Azerbaijan's border security, and will not undermine peace efforts in the conflict between Azerbaijan and Armenia. The waiver is valid through December 2002. The law includes reporting requirements on U.S. aid to Azerbaijan and on the status of peace negotiations between Armenia and Azerbaijan. To ensure Armenia's security, Congress earmarked no less than \$4 million in FMF and the conferees directed not less than \$300,000 in IMET.

The waiver of Sec.907 has permitted U.S. advisory economic assistance to the Azerbaijani government, as well as added security aid (see below). In March 2002, the TDA awarded a \$1 million grant to the Ministry of Economic Development to help it prepare to join the World Trade Organization, and in April 2002, the Commodity Credit Corporation guaranteed \$10 million in credit by the International Bank of Azerbaijan for exports of U.S. agricultural goods. Also, the U.S. Treasury Department has considered providing debt and budget advisory aid to the Azerbaijani government.

U.S. Security Assistance

The United States has provided some security assistance to the region, and bolstered such aid after 9/11 (see box and Table 2). In Georgia, Congress in 1997 directed setting up a Border Security and Related Law Enforcement Assistance Program, and some of this aid has been used by Georgia to fortify its northern borders with Russia and Chechnya. The United States has committed millions of dollars to facilitate the closure of Russian military bases in Georgia. Congress initiated the Security Assistance Act of 2000 (P.L.106-280) that authorized nonproliferation, export control, border, anti-terrorism, and other security aid for the South Caucasus states and earmarking such aid for Georgia. In 1997, a U.S.-Azerbaijan Bilateral Security Dialogue was inaugurated to deal with joint concerns over terrorism, drug

trafficking, international crime, and the proliferation of weapons of mass destruction (WMD). The United States has signed many other agreements with the South Caucasus countries on military cooperation, combating WMD proliferation, and securing nuclear materials. Indicative of proliferation problems, as much as four pounds or more of highly enriched uranium-235, other radioactive materials, and uranium diffusion equipment and centrifuges reportedly are unaccounted for and may be missing from a former lab in Abkhazia.

The Azerbaijani and Georgian presidents have stated that they want their countries to join NATO; much greater progress in military reform, however, will likely be required before they are considered for membership. All three states joined NATO's Partnership for Peace (PFP). Azerbaijani and Georgian troops serve as peacekeepers in the NATO-led operation in Kosovo. The "Cooperative Partner" PFP amphibious assault landing and natural disaster response exercises were held on Georgia's Black Sea coast in June 2001, involving 4,000 mostly U.S., Georgian, and Turkish troops. Follow-on "Cooperative Best Effort 2002" PFP exercises were held at the former Russian Vaziani airbase in Georgia in June 2002, involving 600 troops from 15 countries.

Until waived, Sec. 907 had prohibited much U.S. PFP aid to Azerbaijan (including Foreign Military Financing or FMF), and by U.S. policy similar aid had not been provided to Azerbaijan's fellow combatant Armenia. The waiver enabled both Armenia and Azerbaijan to participate in the "Best Effort" exercises. The waiver has permitted an increase in the U.S. security assistance program to Azerbaijan, which is focused on border security and anti-terror programs. A U.S.-financed center for de-mining opened in Armenia in March 2002. Similarly, the State Department announced in July 2002 that 25 U.S. Special Operations troops are assisting U.S. nongovernmental organizations in training troops in Azerbaijan in de-mining. In April 2002, President Bush issued Presidential Determination 2002-15, making Armenia, Azerbaijan, and Tajikistan eligible to receive U.S. arms exports and services in order to "strengthen the security of the United States."

As part of the U.S. global anti-terrorism campaign, a \$64 million Georgia Train and Equip Program (GTEP) began in April-May 2002 with the deployment of an initial 70 Special Operations Forces advisors (to increase to 150 this summer). They are providing training to Georgian military, security, and border forces to help them combat Chechen,

**Cumulative Budgeted Funds FY1992-FY2001 for
South Caucasian Security Programs
(Freedom Support Act and Agency Funds)
(million dollars)**

U.S. Department of Health & Human Services	3.02
DOE Materials Protection Control and Accounting	0.21
DOS International Military Exchanges and Training	2.46
DOS NADR / Counterproliferation	2.0
DOS Nonproliferation/Disarmament Fund (NDF)	3.45
DOS Science Centers	13.1
DOS Export Control / Border Security	24.1
DOS Anti-Terrorism Assistance (ATA)	2.28
DOS Warsaw Initiative (FMF)	21.49
DOD Warsaw Initiative (PFP)	1.3
DOD-CTR Chain of Custody	5.94
DOD Customs Border Security/Counterproliferation	2.67
DOD/FBI Counterproliferation	1.44
U.S. Customs Service / Georgia Border Security	53.57
Military Relocation (U.S. Dept. Of State & DTRA)	23.8
NSF / Civilian R & D Foundation (CRDF)	9.88
TOTAL SECURITY PROGRAMS	170.71*

Source: State Department, Coordinator's Office

*FY2002 supplemental spending is not included. See Table 2 for FY1992-FY2002 totals.

Arab, Afghani, al-Qaeda, and other terrorists who allegedly have infiltrated Georgia. Some refurbishment of Georgian military facilities also will be carried out, but U.S. officials say there are no plans to establish a permanent U.S. military presence in Georgia. The leader of Georgia's breakaway Abkhaz region, Vladislav Ardzinba, has rejected reports that the region might host terrorists and warned that U.S. training could increase Georgia's revanchism. Reports that al-Qaeda and other terrorists may be currently in Abkhazia (and elsewhere in Georgia) create dilemmas for a U.S. policy that holds governments responsible for terrorists operating on their territories.

Trade and Investment

The Bush Administration and others maintain that U.S. support for privatization and the creation of free markets directly serve U.S. national interests by opening new markets for U.S. goods and services, and sources of energy and minerals. Among U.S. economic links with the region, bilateral trade agreements providing for normal trade relations for products have been signed and entered into force with all three states. Bilateral investment treaties providing national treatment guarantees have entered into force (that with Azerbaijan received U.S. congressional advice and consent and entered into force in August 2001). OPIC has signed agreements that are in force with the three states on financing and insuring U.S. private investment. The Export-Import Bank has signed agreements with Armenia and Georgia for financing U.S. exports. Peace Corps volunteers teach small business development, English language skills, and health awareness in Armenia. With U.S. support, in June 2000 Georgia became the second Eurasian state (after Kyrgyzstan) to be admitted to the World Trade Organization. P.L.106-476, signed into law on November 9, 2000, stated that the President may determine that Title IV should no longer apply to Georgia and proclaim that its products will receive permanent nondiscriminatory (normal trade relations - NTR) treatment. Citing "due regard for the findings of the Congress," President Clinton on December 29, 2000, determined and proclaimed such permanent normal trade relations. Armenia and Azerbaijan currently receive conditional NTR treatment subject to a presidential determination (see also CRS Issue Brief IB93107, *Normal-Trade-Relations*).

Energy Resources and Policy. The U.S. Energy Department reports estimates of 11 billion barrels of proven oil reserves, and estimates of 11 trillion cubic feet of proven natural gas reserves in Azerbaijan. Many problems remain to be resolved before Azerbaijan can fully exploit and market its energy resources, including project financing, political instability, ethnic and regional conflict, and the security and construction of pipeline routes. The recent conflict in Afghanistan is likely to increase regional insecurity, which could affect some or all of the Caspian Sea energy projects.

U.S. policy goals regarding energy resources in the Central Asian and South Caucasian states have included supporting their sovereignty and ties to the West, supporting U.S. private investment, breaking Russia's monopoly over oil and gas transport routes by encouraging the building of pipelines that do not traverse Russia, promoting Western energy security through diversified suppliers, assisting ally Turkey, and opposing the building of pipelines that transit Iran. In 1998, the Clinton Administration set up the post of Special Advisor to the President and the Secretary of State for Caspian Basin Energy Diplomacy to coordinate policies and programs of TDA, OPIC, the Department of Energy, and other agencies (this post was retained but downgraded to Senior Advisor for Caspian Basin Energy Diplomacy by the Bush Administration; the current advisor is Steven Mann).

On May 17, 2001, President Bush announced his national energy policy, in the form of a report drawn up by Vice President Cheney. It recommended that the President direct U.S. agencies to support building the Baku-Ceyhan oil pipeline, expedite use of the pipeline by oil companies operating in Kazakhstan, support constructing a Baku-Ceyhan gas pipeline to export Azerbaijan's Shah Deniz gas, and otherwise encourage the Caspian regional states to provide a stable and inviting business climate for energy and infrastructure development.

Another consequence of the terrorist attacks of September 11, 2001, was greater Administration concern about the vulnerability of the United States to possible disruptions of energy supplies from the volatile Middle East or other regions. The attacks have intensified the Administration's commitment to develop Caspian energy and the Baku-Ceyhan pipeline as part of a strategy of diversifying world energy supplies.

U.S. companies are shareholders in about one-half of twenty international production-sharing consortiums, including the Azerbaijan International Operating Company (AIOC), formed to exploit Azerbaijan's oil and gas fields. In 1995, Aliyev and the AIOC decided to transport "early oil" (the first and lower volume of oil from AIOC and other fields) through two Soviet-era pipelines in Georgia and Russia to ports on the Black Sea, each with a capacity of around 100-115,000 barrels per day. The trans-Russia "early oil" pipeline began delivering oil to the port of Novorossiisk in late 1997. The trans-Georgian pipeline began delivering oil to Black Sea tankers in early 1999.

The Clinton Administration launched a campaign in late 1997 stressing the strategic importance of the Baku-Ceyhan route as part of a "Eurasian Transport Corridor." In November 1999, Azerbaijan, Georgia, Turkey, and Kazakhstan signed the "Istanbul Protocol" on construction of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. Estimates suggest that the 1,000-mile pipeline (carrying a million barrels per day) may cost \$2.95 billion. In mid-2002, the project received a major boost when the European Bank for Reconstruction and Development announced that it would provide \$300 million in financing and the U.S. Overseas Private Investment Corporation (OPIC) also said it would provide \$300 million in loan guarantees. In August 2002, the BTC Company was formed, which will construct, own, and operate the oil pipeline, and it awarded initial construction contracts for a completion date of early 2005 (it includes the U.S. firms Unocal and Amerada Hess; U.S. construction firms include Bechtel and Petrofac). In September 2001, Georgia signed an accord with Azerbaijan to build a pipeline to import natural gas from Azerbaijan's Shah Deniz offshore field, and to permit remaining gas to be piped to Turkey. BP-Amoco has led negotiations between Azerbaijan and Turkey on building a BTC gas pipeline, estimated to cost \$1 billion.

Congressional interest in the South Caucasus states have been reflected in hearings, legislation, and the creation of a Senate Subcommittee for Central Asia and the South Caucasus. Conferees on Omnibus Appropriations for FY1999 (P.L. 105-277) stated that they "believe that the development of energy resources in the Caspian Sea region is important for the economic development of the countries involved, as well as regional stability," endorsed "alternatives to a pipeline through Iran," and supported "an east-west energy corridor to assist in developing the region's energy resources." The "Silk Road Act" language in P.L. 106-113 authorized enhanced policy and aid to support economic development and transport needs in the South Caucasus and Central Asia. Congressional action to lift aid sanctions on Azerbaijan aims to facilitate regional cooperation on anti-terrorism, conflict resolution, and energy development.

Table 1. FY2001 Obligations, the FY2002 Estimate, and the FY2003 Foreign Assistance Request
(in millions of dollars)

Central Asian Country	FY2001 Obligations	FY2002 Estimate Including Emergency Supplementals	FY2003 Request*
Armenia	117.19	103	77.683
Azerbaijan	36.85	54.9	52.98
Georgia	121.7	123	97.492
Total	275.74	280.9	228.155

Sources: USAID and State Department. FREEDOM Support Act and Agency budgets.

*FREEDOM Support Act and other Function 150 funds (does not include Defense or Energy Department funding).

Table 2: U.S. Government FY1992-FY2002 Budgeted Assistance to the South Caucasus, by Category (FREEDOM Support Act and Agency Budgets)
(millions of dollars)

Programs	Armenia	Azerbaijan	Georgia	Total	Percent
Democracy Programs	146.64	70.56	115.93	333.13	11.86
Market Reform Programs	299.51	39.37	185.34	524.22	18.67
Security Programs	29.39	23.75	193.58	246.72	8.79
Humanitarian Programs	723.45	192.48	601.64	1,517.57	54.05
Cross-sectoral/other	133.43	14.43	38.43	186.29	6.63
Total	1,332.42	340.59	1,134.92	2,807.93	100

Source: Coordinator's Office, State Department, and CRS calculations. FY2002 data are estimates.